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UNCLAS SECTION 01 OF 02 ASUNCION 001216

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STATE PASS TO USTR FOR LYANG, MSULLIVAN
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TREASURY FOR OSIA MAUREEN WAFER
TREASURY FOR OTA RICHARD BARTHOLOMEW
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SENSITIVE

E.O. 12958: N/A

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SUBJECT: MINISTER OF FINANCE REQUESTS BUDGET EXECUTION
ASSISTANCE

11. (U) This cable is Sensitive but Unclassified. Please protect accordingly.

Summary

12. (SBU) Finance Minister Bergen has asked the Ambassador for USG assistance with a major overhaul of the Ministry's financial management function, as part of a general restructuring of the ministry. He spoke in terms of a team of experts, and suggested that perhaps a university, such as the Kennedy School of Government or Columbia, could oversee the program, in part to provide political cover for the effort. Post and Treasury's Office of Technical Assistance have been in contact about the proposal, and Minister Bergen will meet with OTA on September 26 in Washington. The InterAmerican Development Bank resident representative has expressed a strong interest to us in working together to support Minister Bergen's plan. End Summary.

13. (SBU) In early September, Finance Minister Bergen asked the Ambassador for a meeting to discuss budget issues. Vice Minister of Economy Jorge von Horoch and Econchief also attended the meeting. The Minister requested USG assistance in providing or recommending a source that could provide help with overhauling the Ministry's budget execution capacity.

REQUEST FOR HELP WITH INSTITUTIONAL OVERHAUL

14. (SBU) Minister Bergen requested USG assistance with a major overhaul of the Ministry's financial management function. Minister Bergen was aware and appreciative of the work of the Resident Budget Advisor from Treasury's Office of Technical Assistance (OTA) but he requested additional assistance to bring about a rapid sea change in the Ministry. The Minister is focusing on increasing the transparency and effectiveness of budget execution, but he has in mind a general restructuring of the Ministry.

15. (SBU) Both Minister Bergen and Vice Minister von Horoch described various problems ranging from lack of capacity to analyze the budget proposals of other ministries to sabotage. The Vice Minister complained that, while working on the 2006 budget, items deleted after some meetings would reappear hours later in subsequent versions of the budget as saved on the Ministry's information systems. They also noted that while social spending as recorded by the overall budget numbers has increased, there has been little visible impact.

16. (SBU) What Minister Bergen has in mind is a "takeover," akin to a corporation hiring outside consultants to reengineer the firm. He envisions a team of experts coming in and virtually assuming control, either by giving over-the-shoulder instructions to the current staff, or, if the current staff resists, moving them aside and putting new people in who will take the instructions and implement what the experts dictate. He spoke in terms of a team of experts, and suggested that perhaps a university, such as the Kennedy School of Government or Columbia University, could oversee the program, in part to provide political cover for the effort.

17. (SBU) Subsequently, Econchief and the Resident Budget Advisor contacted OTA. Minister Bergen, Vice Minister von Horoch and possibly Central Bank President Monica Perez will be meeting with OTA on September 26 while in Washington for the World Bank/IMF meetings. Von Horoch has clarified that they would welcome OTA leadership in the effort, but would

prefer the involvement of a university or think tank of some kind to defuse any potential complaints of USG interference in the Finance Ministry. Note: the recent visit of Secretary Rumsfeld and press misinformation relating to

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future USG military operations in Paraguay has made USG assistance to Paraguay in such a direct manner rather sensitive. End note.

IDB SEEKS TO COLLABORATE WITH USG

18. (SBU) Econchief spoke with Alvaro Cubillos, Resident Representative of the InterAmerican Development Bank (IDB), as a follow-up to a previous conversation he had had with the Ambassador and Minister Bergen. Cubillos expressed strong interest in working together to support Minister Bergen's plan for a general restructuring of the Ministry of Finance (of which the budget process is the largest part). Cubillos said that the IDB has up to \$1.5 million in grant funds that could be utilized for the project, and suggested that bringing in the U.S. Trade and Development Agency Evergreen Fund (a USTDA fund established to provide the IDB with access to funds for US consultants) would provide maximum flexibility in the use of the funds.

19. (SBU) Cubillos said the IDB has experience working with entities such as the Kennedy School or Wharton, and welcomes the involvement of Treasury's OTA. For next steps, he suggested that, after the Bergen meeting with OTA in Washington, we meet in Asuncion to devise a common plan and agenda to most efficiently use our combined resources. Cubillos suggested that the IDB could work with USTDA directly on the funding, while OTA could define the specifics of the program.

110. (SBU) Although Cubillos did not foresee a conflict with the World Bank's "Ministry of Excellence" program, expected to begin implementation in 2006, it will be important to coordinate with the World Bank to ensure against overlap.

COMMENT

11. (SBU) Minister Bergen, displaying the pragmatic, results oriented stance that made him a successful businessman, has made an aggressive proposal to rework the Ministry. Unlike his predecessor, who opted to initially bypass the institutional problems of the ministry by bringing in a large team of trusted advisors, Minister Bergen clearly wants to overhaul the Ministry in hopes of leaving a permanently strengthened institution when he leaves. Minister Bergen is close to President Duarte and has his strong support, and Bergen is also unlikely to waver in his resolve. Post strongly believes that additional USG investment to support Minister Bergen's request will pay large dividends by strengthening one of the GOP's most important ministries.

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